

**PILOT LOCAL
GOVERNMENT
PARTNERSHIP PROGRAM**

**STRATEGIC MANAGEMENT,
BUDGETING AND FINANCE
STRATEGY MODULE**

(DRAFT)

Prepared for



East European Regional Housing Sector Assistance Project
Project 180-0034

U.S. Agency for International Development, ENI/EEUD/UDH
Contract No. EPE-C-00-95-001100-00, RFS No. 616

Prepared by

Tom Kingsley
The Urban Institute

Tom Levitas
Research Triangle Institute

under subcontract to

The Urban Institute



THE URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

January 1997
UI Project 06610-616

TABLE OF CONTENTS

	Page
APPROACH TO STRATEGIC MANAGEMENT, BUDGETING AND FINANCE MODULE OF THE PILOT LGPP	1
The Goals of the Strategic Management, Budgeting and Finance Module	1
What We Mean by Strategic Management, Finance and Budgeting Tools	1
What's in the Tool Kit and How Tools Will Be Used	3
Diagnostic Tools	3
Complex Tools: CIP and TBB	8
The Identification of External Barriers and their Linkage to National Policy Issues	13
PILOT LOCAL GOVERNMENT PARTNERSHIP PROGRAMBEST PRACTICE GUIDE	5
Introduction	15
Two Approaches That Do Not Work: "Traditional Planning" and "No Planning" ..	15
The Essence of Strategic Management	16
What's in PLGPP's Strategic Management, Budgeting and Finance Tool Kit? ..	17
Diagnostic Tools	18
Complex Tools: CIP and TBB	22

APPROACH TO STRATEGIC MANAGEMENT, BUDGETING AND FINANCE MODULE OF THE PILOT LGPP

THE GOALS OF THE STRATEGIC MANAGEMENT, BUDGETING AND FINANCE MODULE

This component of the Pilot Local Government Partnership Program (LGPP) has three basic goals.

- To provide city officials with a repertoire of strategic management, finance and budgeting tools that will help them integrate, plan, and execute their most pressing responsibilities.
- To develop a network of leading cities, domestic training institutes and Polish consulting firms capable of not only mastering these tools in a given municipality, but of disseminating and applying them elsewhere and beyond the life of the Pilot LGPP.
- To use the repeated application of these standardized tools to gather well documented information about systemic legal, regulatory and financial problems, and to help research institutes, policy makers and municipal associations transform this information in reform proposals and service programs for their members.

WHAT WE MEAN BY STRATEGIC MANAGEMENT, FINANCE AND BUDGETING TOOLS

The repertoire of tools that will be offered under this module of the Pilot LGPP all represent American models of best practice that have been--or will be--systematically adapted for standardized use within the Polish legal, regulatory and economic context.

Some of these tools are already fully operational. Others will be enhanced with the help of Pilot Partner Cities, Polish consultants and domestic training institutes as the Pilot LGPP unfolds.

All tools are designed to help city officials co-ordinate, control and integrate the diverse and complex tasks of city government. And all are fundamentally about improving the management and planning skills of city officials.

But because a certain style of theoretically comprehensive planning has been discredited in the West--and more obviously in its most extreme form under socialism--it is important to make clear what we mean by planning, and the ideas about planning that have informed the tools we are talking about.

These ideas, which taken together form the essence of American best practice in the area, can be summarized as follows:

- The tasks facing municipal government are so large, and the world so uncertain that it is impossible to simultaneously address all problems, or plan for all contingencies. As a result, good planning tools must be designed for a world of incomplete information, multiple possibilities, and real-time shortages. They must, in other words, help city officials structure, and acquire at the lowest possible cost the information needed to avoid the most pressing dangers that confront their communities, and to exploit the most attractive opportunities at hand.
- Conversely, the inevitable *selection of priorities* forced upon city officials by a mean and uncertain world cannot be rationally undertaken without both a vision of the community's future, and a realistic assessment of the resources the community has at its disposal to get there. In other words, without a vision of the future, there is no rational way to select a path to get there. And without an assessment of available resources, there is no reasonable way to determine whether one might survive the rigors of any particular path.
- A corollary to the above, is that the development of better planning and management systems cost, time, money and effort. Thus, while in the best of all possible worlds, city officials would look to improve all systems at once, in practice they must make strategic decisions about which systems to address first. As with other choices, this decision should be made within the context of the city's most pressing needs, its available resources and the expected gains vis-B-vis other potential courses of action.
- Among the most important techniques for lowering the costs of planning, and reducing the risk of making bad decisions, is to systematically engage subordinate agents in the planning process itself. In most cases, this means systematically engaging the work of disparate departments, service agencies and companies in the planning and monitoring of activities. In other cases, it also requires engaging the community-at-large and its non-governmental representatives. But in all cases it requires the careful definition of roles and procedures, and the clear assignment of responsibilities.
- Finally and perhaps most importantly, there is the basic belief that plans that do not find themselves expressed in budgets (or other implementing mechanisms) are generally meaningless, and budgets that cannot be clearly read back into plans are generally wasteful. In other words, a plan that is not expressed in a budget, is likely to be a plan that is sitting on a shelf. And a budget, that is not clearly related to a plan is likely to mean that money is being



spent out of habit or fancy, and is certainly being spent without ways to measure progress towards a larger goal.

WHAT'S IN THE TOOL KIT AND HOW TOOLS WILL BE USED

As we have indicated above, the adoption of strategic management techniques and the improvement of financing and budgeting systems is itself a set of strategic choices about the allocation of resources.

Some of these techniques are simple to apply, cost little and have quick pay-offs. Others involve serious organizational reform and the acquisition of new and complex skills by city officials. These process-dependent tools may take years to fully implement and their benefits, while profound, often only manifest themselves with time.

Thus, while the mayors of Pilot Partner Cities will be able to freely choose from the tools available in this module we expect that in most cases there will be a logical progression from the choice of tools that are “cheap” and fast, to those that require the devotion of greater organizational and financial resources.

The tools we will deploy under this module have been designed to follow this logical progression. In most cities, we expect to begin work with the application of a set of relatively simple and fast diagnostic tools. The information and results yielded by these tools will then allow mayors to make informed choices about committing the organizational resources necessary to apply and master the more costly and complex tools.

In the following, we present the tools that we have available, or that will be enhanced within this expected progression. Obviously, however mayors who know that they want to jump right into one of the larger programs will be free to do so.

Diagnostic Tools

The Gmina Financial Analysis: Basic and Enhanced

We expect that most technical assistance in Pilot Partner Cities will begin with the application the Basic Gmina Financial Analysis (BGFA) and the Scan of Planning and Management Systems (SPMS).

Taken together, these two tools will give mayors a basic sense of the financial resources that they have at their disposal over the next 5 to 7 years, as well as an initial assessment of their most important planning and management systems.

In essence, the BGFA is a powerful set of spread sheets that integrate multi-year projections of revenue and operating expenditures with planned investment outlays over the same period to yield a basic picture of the medium-term financial resources of a municipality.

The BGFA has been successfully run in 10 different gminas. The personnel of the MDA are currently mastering the instrument and it has been taught to several consulting firms.

Application of the BGFA, whether conducted by the Pilot LGPP itself or by trained consulting firms will be carefully monitored by the personnel of the Infrastructure Finance module of the program in order to control quality. The maintenance of quality, in turn, is extremely important if this instrument is to set--as it should--a standard for banks and gminas in analyzing credit worthiness.

The collection of the data necessary to run the BGFA, on the one hand forces city officials to develop a highly abbreviated capital investment plan, which while abbreviated nonetheless usually marks the first serious attempt to unify and structure information about individual investments.

On the other hand, the structure of the spread sheets themselves at once impose, and make transparent a rational set of assumptions about future trends in revenues and operating expenditures, again usually for the first time.

To date, the BGFA has been used primarily to assess a gmina's medium term debt carrying capacity. Typically, however the very problems in collecting the relevant data about planned investments reveal the shortcomings of a municipality's existing capital planning procedures.

The application of the BGFA, thus constitutes a natural starting point for a discussion with a mayor about whether he or she wants to commit the resources necessary to develop a full blown Capital Investment Program (CIP), one of our more complex tools.

At the same time, by integrating historical and projected data on revenues and operating expenditures the BGFA yields a wealth of information about the present and future structure of the city's basic operating expenses, and revenue flows.

Indeed, the application of the BGFA often flags "irregularities" such as unusually low revenues from transport taxes or unusually high expenditures on housing subsidies that may signal serious problems. Thus, the instrument has latent diagnostic powers and policy implications well beyond analyzing municipal debt carrying capacity.



Thus far, we have made relatively little systematic use of these latent possibilities. Over the next three months, however this module of the Program will develop an Enhanced Gmina Financial Analysis (EGFA) designed to fully exploit these diagnostic possibilities.

The EGFA will add three new components to the BGFA:

- A set of variables that allow the calculation of the impact of possible changes in city policy or in the external economic and regulatory environments, on major revenues and expenditures categories.
- A handbook to explain the use of the GFA and the policy implications of the tool's enhanced sensitivity powers.
- A simple data base designed to confront the information yielded by the GFA in a particular city with basic GUS data on revenue and expenditures norms for cities of comparable sizes.

Taken together, these new components of the GFA will make the line by line assumptions used to project revenue and expenditure categories in the spread sheets both more transparent and more sensitive to potential external impacts; increase the tools relevance to city policy-making in such areas as wage policy and local revenue policy; and provide gminas with important comparative performance data.

At the same time, the new components of the EGFA will make it easier to teach the GFA to more training institutes, gminas and consulting firms; to eventually check--as the number of applications of the tool increases--the incomplete and often problematic "norms" found in GUS data; and perhaps most importantly, create a more reliable informational base and common frame of reference for the discussion of potential impact of further changes in the intergovernmental finance system and the national regulatory environment.

Finally, these diagnostic powers of EGFA will help mayors make informed decisions about the potential gains to be had by implementing a full blown Task-Based budgeting program, another of the module's more process dependent tools.

The Scan of Planning and Finance Systems

If the primary purpose of the GFA is to answer the question what resources does a city really have and how are they being spent, then the primary purpose of the Scan of Planning and Finance Systems (SPFS) is to answer the question: Do the existing management systems and procedures allow city officials to make informed strategic decisions and manage and monitor their execution?

The SPFS focuses on four distinct but related major management sub-systems: the Operating Budget; Investment Planning and Financing; Physical Development Planning; and Municipal Services and Operations.

The SPFS examines the readily available facts about the organization of these to determine whether they:

- Provide pertinent, adequate and reliable information to decision makers in a timely fashion.
- Contain formal mechanisms to assign responsibility to, and account for and control the actions of concerned agents.
- Create procedures that make the decision-making process visible, understandable, and transparent.

To date, various components of the SPFS have been run in a half dozen cities. Based on this experience we expect the full application of the scan will require a week of on-site work by a team of 3-4 consultants. During this week the top city officials responsible for each of the four major management systems will be interviewed and the relevant documents for each management sub-system reviewed.

The scan of the individual management subsystems will be guided by a framing question that our experience has shown to yield the most information about the most problematic areas. These framing questions can be stated as follows:

- *Operating Budget:* How is the current operating budget formulated and managed, and how well does it allow top officials to predict, monitor and account for current revenues and expenditures?
- *Investment Planning and Financing:* Do current investment decision-making procedures relate individual projects to policy positions, priorities and schedules with financial capacity explicitly defined in a visible and transparent process?
- *Municipal Services/Operations:* How are the major municipal services organized and how is service quality and financial accountability defined and maintained?
- *Physical Development Planning:* Do strategic and sectoral plans provide a reliable guide for capital investment decisions and direct resources for economic growth and social needs?

To give robust answers to these framing questions the Module will develop a set of topically-specific issue checklists for the different principal actors involved in each management subsystem. Accompanying these checklists there will also be a standardized sets of requests for documents for each management subsystem.



Some of these checklists will be developed in house, others will emerge as the scan is applied in more cities and through the Task-Based Budgeting (TBB) and Capital Investment Planning (CIP) training programs that are being developed in cooperation with the MDA and other institutions.

Together, the checklists and document requests will make it easier to teach the complex diagnostic skills involved in the SPFS to consulting firms and training institutes. They will also serve as the vehicle for the collection of reasonably commensurable data about qualitative problems across cities with comparable profiles. As the project unfolds we will use these checklists to identify typical organizational, procedural and informational problems in cities of different sizes. Based on the analysis of these typical, size specific problems, we will design new tools such as model organizational charts with competency assignments and lists of basic planning information, and their sources, for gminas of different sizes.

The results of the scan are delivered in the form of an exit briefing for the mayor at the conclusion of the onsite mission, and then in a report of findings and recommendations, delivered shortly thereafter. The recommendations contained in the briefing and the findings report will relate the mayors stated priorities to the diagnosis of each of the major planning sub-systems generated by the scan.

Moreover, all recommendations for further technical assistance will be accompanied by clear definitions of the organizational (and financial) resources that will have to be spent by the city to implement the appropriate reforms. Obviously, recommendations to implement full blown process dependent programs will only be made for those management sub-systems that city officials are most concerned with.

At the same time, however, it is likely that many of the discrete and relatively simple remedial actions that are proposed in areas of less pressing concern to city officials, will nonetheless serve as the basis of more profound subsequent changes. Indeed, the Module has designed its process dependent tools in the area of Task-Based Budgeting and Capital Improvement Planning in ways that allow most of their respective parts to be implemented individually.

Thus, and for example, the scan of the Operating Budget, might reveal that a city has not formulated clear budget instructions for its departments and that it has a poorly articulated budget calendar. Improving these aspects of the Operating Budget can be done quickly and at low cost, and may prove be attractive to a mayor whose primary objective nonetheless concerns the improvement of the city's investment planning process. At the same time however, the development of budget indicators and a budget calendar could grow into work on defining performance indicators for particular departments, serving as the eventual basis for a full-blown TBB.

Conversely, a mayor primarily concerned with improving the management and control of his or her operating budget, and thus committed to implementing a TBB might nonetheless be having problems deciding which of two important investments the city should focus on. Here, the mayor might request help in determining investment priorities and establishing rational criteria for the choice the city faces, work that might eventually serve as the basis for more complex interventions into the capital improvement process.

Finally, while we expect that some of this Module of the program may solve many of the remedial problems that SPFS identifies, we expect that the more profound issues in the areas of service provision and enterprise control, land management, and economic development will be passed-off on to the other Modules of the Pilot LGPP.

Complex Tools: CIP and TBB

Following the application of the EGFA and the SPFS we expect top city officials to be able to make informed decisions about whether they wish to devote the organizational resources necessary to fully implement the two major process-dependent tools two that this module will offer.

We consider the full application of these tools extremely important because the processes they put in place do more than other reforms to raise the overall level of municipal governance, accountability and service provision. In short, and as complex processes, they are key to integrating and making manageable the diverse and often otherwise overwhelming challenges that face municipal governments across the globe.

Nonetheless, our understanding of strategic management and planning as a reflexive process that must be aware of the cost/benefit aspects of its own application have led us to design the component parts of these processes into more or less discrete units. Thus, while the module will constantly work to implement the entire range of activities and reforms associated with both capital improvement planning and task-based budgeting it will do so in ways that fit the immediate need, resources and priorities of the communities we are working in.

Capital Investment Planning

At the most general level capital improvement planning is about four things:

- Creating procedures to elicit good information from both technical experts and the population-at-large about a community's most pressing needs, and the relation of those needs to its overall vision of itself.
- Developing processes that allow city officials and citizens to make informed judgements about the real social and economic costs (and benefits) of different infrastructure projects, and to prioritize them.



- Setting up mechanisms to determine whether the community can afford, or is willing, to pay for the realization of the selected projects and to transparently make decisions about the reordering of priorities based on this assessment of resources.
- Establishing protocols to insure that the construction and financing of the selected projects proceeds as scheduled and planned.

Each of these basic tasks can in turn be broken down into discrete problems that can be addressed by particular tools. For the moment, most of the tools in the CIP tool-kit are designed to facilitate the development of those elements of the above mechanisms, procedures, processes and protocols that are internal to city government.

The full use of some tools, however, will require more direct input from the community than is currently the norm in Poland. Thus, we expect that with time, and as mayors come to understand that there are very few purely technical fixes to what are inevitably complex social and political problems, the module will move out from city hall itself, to the interface between government and citizen.

In the following, we list the specific tools that Module will develop. The tools are designed to be used together as components of an integrated system. However, we anticipate that in practice some tools will be deployed on a stand alone basis and tool development will accommodate this potential. These tools are currently being adapted to the Polish legal, economic and regulatory environment with the MDA and in co-operation with the other institutions and select cities.

■ **Model CIP instructions and request forms.** This tool provides a model for organizing the flow of information required to generate a capital investment plan from a series of individual project requests. It consists of a CIP preparation calendar; a definition of key terms; a set of standard instructions to and information requirements that must accompany all funding requests; an explanation of the criteria used to select projects for funding; and procedures for engaging citizens in the process. The instructions are patterned after conventional budget instructions, and place the obligation to provide information and justification on the agency or department making the request. These tools are controlled by the designated CIP Coordinator.

■ **Model investment evaluation & priority criteria.** This tool provides a standard set of criteria to evaluate the performance of proposed capital investment projects and assess priorities. The criteria reflect three different perspectives: the individual service sector; the physical development of the municipality, and the broader strategy of the municipality as whole.

■ **Model CIP summary evaluation formats.** These formats are designed to provide a condensed one-page presentation of investment projects for top city officials. The one-page formats present a condensed evaluation judgement of an individual project; summary cost /benefit data on all projects, by priority; and the total resource consumption of all projects, by priority.

■ **Model CIP process control spreadsheet.** This tool tracks the fate of all projects requesting funding in an annual CIP process. It is analogous to more elaborate systems which track the disposition of ordinary budget requests. It is built as an inventory of requests which are tracked through evaluation, prioritization, the decision to fund, and a schedule of funded projects. It yields an inventory of funded and un-funded projects.

■ **Model display formats for the CIP document.** These tools are for conveying and displaying comprehensive and transparent substantive and financial information in a publicly distributed CIP. These tools both help define the content of a good CIP as well as refine its mode of presentation. Examples include content guidance for text; content and format of tables; graphic display; maps.

■ **Model legal form of the capital budget.** This tool combines guidance on how to draft good appropriation and debt authorization language with the clear identification of any requirements imposed by Polish municipal finance law on the content and form of a capital budget. It anticipates that only the budget can legally authorize funds, and that the CIP will serve as the official municipal statement of its infrastructure development agenda, but will have no binding legal status. The process of developing this tool will continue to be used to identify legal impediments to best-practice budgeting and financial control of capital funds.

■ **Model investment technical preparation protocol.** This tool defines the steps required to properly prepare an investment project for tender. The steps are described in terms of the reliability and content of the information needed for each stage of the process, beginning with the general concept of the project and ending with construction specifications. The protocol will define at least one key GO/NO GO point at which proposed projects are reviewed for or for further technical elaboration. This protocol will also identify under what circumstances a formal feasibility study is required and will define its needed content and as well as the conditions that would require a prior financial feasibility test. The feasibility study stage is likely to provide the earliest opportunity for a well-informed GO NO GO decision on major projects. This protocol will draw on ongoing MDA efforts and outside experts to define good technical preparation practice and content for feasibility studies in different sectors and is described in greater detail in the Infrastructure Finance Module.

■ **Model investment cost estimating protocol.** This protocol is being developed in parallel with the Technical Preparation Protocol to define standards for developing capital cost estimates of proposed investments for use at major decision points in the

project preparation cycle. This protocol will define when these costs estimates should be prepared; their technical basis; and their expected degree of accuracy. It will conclude with the Investor's Cost Estimate as required by the new Procurement Code. A related protocol for estimating operating cost and revenue impacts of proposed investments will also be prepared.

■ **Directory of infrastructure financing resources.** This tool is a directory of all market and non-market financing sources available to finance one or more categories of infrastructure investments in Polish cities. The directory, being developed in co-operation with the MDA will identify each source, describe financing terms, indicate the volume of financing available, describe how each source is accessed, and provide a contact point for obtaining further information. This directory will incorporate material developed by EAPS, UNIDO and other partial surveys.

Tasked-Based Budgeting

Task-Based Budgeting is principally about three things:

- Defining procedures that make current resource allocation decisions transparent to both citizens and city officials.
- Developing performance mechanisms to define costs and measure the efficiency of resources spent on a given task or program.
- Assigning responsibility for the realization of given tasks to particular agents within the government and developing the mechanisms and protocols to measure the execution of these responsibilities against their expected performance.

Task-Based Budgeting is thus fundamentally about increasing the transparency of resource allocations by linking budgeting to explicitly stated expectations and measure of performance. Like capital improvement planning the implementation of TBB programs typically extend over several years. Moreover, full-blown TBB programs may require profound organizational changes, new accounting procedures, new computer software (and often hardware), as well as new skills.

But also like CIP programs, TBB can be broken down into component parts that allow for both the progressive implementation of programs and the progressive realization of their benefits. In the following, we list the specific tools that Module now has--or will shortly have--available for deployment.

Most of these tools have been adapted to the Polish legal, economic and regulatory environment by the MDA's Budget Research Center in Krakow and in co-operation with the lead city of Krakow which has taken major steps towards implementing a full-blown TBB program.

Moreover, many of these tools are comprehensively presented in the Manual on Task-Based Budgeting developed by ICMA and the MDA's Budget Research Center. Finally, training based on this manual has begun at MISTiA and is expected to commence shortly at the LBS.

In the following we list the tools that are currently available, or will be developed in the coming months.

■ **Model budget calendars, assignment charts, and budget instructions.** The MDA-Krakow has developed a model budget calendar, standard budget instructions, and assignment charts for use in the budgeting process. The calendar defines when different agents are responsible for submitting budget requests, and when and by whom these requests are decided upon. The budget instructions contain standard instructions for calculating inflation, presenting requests and for justifying them. The assignment charts define who is responsible for what during both the formulation of the budget and its execution. All are constructed in specific reference to existing practice that highlights the difference between these practices and the desirable norms, and all can be implemented relatively quickly and with major immediate benefits.

■ **Budget variance spreadsheets.** Because current budget control practices in Poland today typically measure actual expenditures only against year end expectations, we will develop a set of simple spreadsheets that will allow the budget department to track the most important revenue and expenditure categories on a monthly or quarterly basis. These spread sheets will be designed for use alongside the accounting system and will not require its replacement, or its full computerization.

■ **Models of public participation.** The TBB Handbook presents a full inventory of various methods for engaging the public at large in the budget process. For some of these methods, the handbook describes explicit social scientific survey instruments and technologies, as well as examples of instruments that have been successfully used in Poland and abroad. Detailed methodologies for use in other more public forums will be developed and tested as the Pilot LGPP unfolds.

■ **Performance and effectiveness measures.** The TBB Handbook also presents standardized formats for the departmental development of performance and effectiveness measures, as well as some basic formulas for calculating and distributing overhead costs between departments. These formats are accompanied by examples of performance indicators and effectiveness measures for select city tasks, as well as worksheets for calculating basic measures. Over time, the number and type of tasks for which their will be model indicators and work sheets will increase, simplifying the training and dissemination efforts already going on.

■ **Standardized software packages for cross-walking budgeting systems.** At present, only the City of Krakow has invested in the hardware and software needed to

cross-walk a Task-Based Budget with the accounting requirements mandated by the national government. Moreover, it is unclear how well this system “the first of its kind in Poland” actually performs, and whether it will be appropriate or cost effective in smaller municipalities. As a result, one of the more immediate tasks of the Module will be to conduct an inventory of existing software programs available on the Polish market and an analysis of which programs might be most easily adapted to fit the needs of cities of different sizes. Based on this diagnostic, we expect then to work with a two or three local computer firms active on the municipal market to develop viable programs to serve cities with different needs.

The Identification of External Barriers and their Linkage to National Policy Issues

As we have indicated, one of the primary goals of this module of the Pilot LGPP is to use the development and repeated application of standardize tools to yield well documented information about the systemic obstacles to improving the ability of local governments to manage, improve or finance their responsibilities.

We also expect the module to transform this information into material that can be used by policy makers, research institutes and municipal associations in their efforts to improve the overall enabling environment for city governments.

Some of this information will be generated and at least partially transformed by the repeated application of both the Enhanced Gmina Financial Analysis and the Scan of Planning and Financial Systems. Some of it, however has already been generated by the development of these tools, and the tools that are going into our Capital Improvement and Planning and Task Based Budgeting Programs.

Moreover, we expect that this Module will be responsible for coordinating and transforming the lessons learned from the Infrastructure Finance Module and the Municipal Enterprise Module into “White Papers” that will serve as the basis of discussion for our Polish counterparts and for the leveraging of resources between the Pilot LGPP and the Local Governance and Policy Program run by DAI.

Finally, we expect the system of lead cities, and leading training institutes to form the natural base around which to develop and initially discuss the “White Papers” that will then be funneled to the Municipal Associations, policy institutes and the Joint Commission on Intergovernmental Affairs and parliamentary committees.

It is also fair to say that the work that has been done so far in Poland by RTI and other agents has led to the identification of a number of issues that should be addressed in more or less specific “White Papers.” In the following we list the “White Papers” we feel should be undertaken relatively early in the life of the Pilot LGPP.

White Paper(s) on Blockages in the Financing of Municipal Infrastructure

On the one hand, site-specific TA and basic policy work have identified a number of potential blockages to the functioning of municipal capital markets. On the other hand, the low level of municipal borrowing has masked the ultimate importance of these blockages for the operation of the system as a whole.

Over the next couple of years however, it is clear that borrowing will increase substantially as interest rates fall further, the GFA becomes more widely disseminated, and city officials become more comfortable managing debt. And as the demand for credit increased the existing blockages will become more painful. These blockages consist of the following topics, topics which could be treated separately or in a few “collective” white papers:

- The rulings of the Anti-Monopoly Office that make it hard to include debt service costs in the fees and charges of particular services.
- The Law on Municipal Finances that defines municipal budgets as unitary and unpartible wholes, making it impossible to create “enterprise” or “sinking” funds to service debt.
- The Law on Bonds which makes it difficult or impossible to do revenue backed issues because issuers must back issues with all their assets.
- The existing system of central government guarantees for municipal borrowing whose unworkable procedures could be simplified through the introduction of a true “state-aid intercept” mechanism.

White Paper on the Municipal Physical Planning Law

Certain provisions of the recently enacted municipal physical planning law ironically hinder sound comprehensive physical development planning. For example, the law requires municipalities to pay compensation for regulations that diminish property values. At the same time however, the law articulates no legal standards for breach of property rights or for evidence, and provides few standards for determining market values or appraisal procedures.

PILOT LOCAL GOVERNMENT PARTNERSHIP PROGRAM BEST PRACTICE GUIDE

STRATEGIC MANAGEMENT, BUDGETING AND FINANCE FOR LOCAL GOVERNMENTS IN POLAND

INTRODUCTION

The job of a mayor--of being the chief executive of a local government--is surely one of the most difficult jobs in modern society. Mayors are responsible for an incredibly diverse and complex array of functions. It is impossible for any one person to understand the details of all of them. It makes the job of running a private business--even a very large one--look simple in comparison. Moreover, mayors do not have the same degree of control over their operations that business executives do. They cannot simply issue instructions and be sure they will be carried out as specified. They have to work with many groups, inside and outside of government--groups that are often in conflict with one another--and somehow build enough consensus to move ahead. The public seldom appreciates how difficult all of this is--they are quick to blame the mayor if anything goes wrong even if the circumstances were beyond his or her control.

Despite these difficulties, however, some mayors are able to manage the challenges they face more successfully than others. How do they do it? Clearly, there is no one magic formula that can assure success in every case. But recent international research suggests there is a general approach to managing complex organizations that is far superior to the administrative methods recommended in traditional textbooks. Most often this new approach being called strategic management.

This paper first outlines the basic principles of strategic management as we feel it can be best applied to improving the performance of Polish gminas. Here, we stress its linkage to budget and finance processes, because these are at once central to the overall concept and often constitutes the most problematic areas for Polish city governments. It then goes on to present the specific tools that will be offered to partner gminas over the coming months under the Strategic Management, Budgeting and Finance Module of the Pilot Local Government Partnership Program (PLGPP). Along the way, and in separate boxes you will find brief descriptions of the benefits these tools have already brought to a number of Polish Gminas.

TWO APPROACHES THAT DO NOT WORK: “TRADITIONAL PLANNING” AND “NO PLANNING”

To define what strategic management is, it is helpful to start by being clear about what it is not. First, and foremost, it does not involve the comprehensive planning that was typically advocated in the past. Two decades ago, Western textbooks on public administration almost always recommended that a new mayor start by forming a fairly

detailed long term plan for all government departments and entities. Once constructed, this detailed plan was to guide the implementation of all efforts to improve city government.

In its effort to plan for everything, and in its essentially technocratic attitude to political and social problems, this approach to city government was not unlike the approach central planners applied to all of society under “socialism.” Indeed, even with markets and democratic rule limiting the hubris of planners, the comprehensive approach failed to recognize that the scarcest resource for top city officials is their own time. They simply did not have the time to conduct the analyses needed to seriously think through the operation of all government departments every year.

In short, it has become clear that the world is too uncertain a place to attempt to control all activity through a single comprehensive plan. Indeed, the effort to do so is costly, stifles initiative, and is ultimately self-defeating as the pace of change renders “the plan” more and more archaic.

Those who completely abandoned planning, however, have had other equally serious problems. Trying to manage the operations of a local government on an ad hoc basis, responding to issues as they emerge without any long term vision or sense of mission to guide day-to-day actions leads to chaos. All participants feel they have lost control over their lives as they lurch from one crisis to the next. There is no sense of building toward real and meaningful improvements in performance over the longer term.

THE ESSENCE OF STRATEGIC MANAGEMENT

There is now a growing literature on strategic management and planning. Some of it is designed for the private sector and some of it is design for government officials. Not surprisingly, people also use the term to mean different things. It is thus worth the effort to briefly identify what we understand by the term in relationship both to past practices and the most pressing needs of Polish gminas.

- The tasks facing municipal government are so large, and the world so uncertain that it is impossible to simultaneously address all problems, or plan for all contingencies. As a result, good planning tools must be designed for a world of incomplete information, multiple possibilities, and real-time shortages. They must, in other words, help city officials structure, and acquire at the lowest possible cost the information needed to avoid the most pressing dangers that confront their communities, and to exploit the most attractive opportunities at hand.
- Conversely, the inevitable *selection of priorities* forced upon city officials by a mean and uncertain world cannot be rationally undertaken without both a vision



- of the community's future, and a realistic assessment of the resources the community has at its disposal to get there. In other words, without a vision of the future, there is no rational way to select a path to get there. And without an assessment of available resources, there is no reasonable way to determine whether one might survive the rigors of any particular path.
- A corollary to the above, is that the development of better planning and management systems cost, time, money and effort. Thus, while in the best of all possible worlds, city officials would look to improve all systems at once, in practice they must make strategic decisions about which systems to address first. As with other choices, this decision should be made within the context of the city's most pressing needs, its available resources and the expected gains vis-a-vis other potential courses of action.
 - Among the most important techniques for lowering the costs of planning, and reducing the risk of making bad decisions, is to systematically engage subordinate agents in the planning process itself. In most cases, this means systematically engaging the work of disparate departments, service agencies and companies in the planning and monitoring of activities. In other cases, it also requires engaging the community-at-large and its non-governmental representatives. But in all cases it requires the careful definition of roles and procedures, and the clear assignment of responsibilities.
 - Finally and perhaps most importantly, there is the basic belief that plans that do not find themselves expressed in budgets (or other implementing mechanisms) are generally meaningless, and budgets that cannot be clearly read back into plans are generally wasteful. In other words, a plan that is not expressed in a budget, is likely to be a plan that is sitting on a shelf. And a budget, that is not clearly related to a plan is likely to mean that money is being spent out of habit or fancy, and is certainly being spent without ways to measure progress towards a larger goal.

WHAT'S IN PLGPP'S STRATEGIC MANAGEMENT, BUDGETING AND FINANCE TOOL KIT?

The repertoire of tools that will be offered under the Strategic Management, Budgeting and Finance module of the PLGPP all represent American models of best practice that have been--or will be--systematically adapted for standardized use within the Polish legal, regulatory and economic context.

Some of these tools are already fully operational. Others will be enhanced with the help of Pilot Partner Cities, Polish consultants and domestic training institutes as the

PLGPP unfolds. All tools are designed to help city officials coordinate, control and integrate the diverse and complex tasks of city government. And all are fundamentally about improving the management and planning skills of city officials.

As we have indicated above, the adoption of strategic management techniques and the improvement of financing and budgeting systems is itself a set of strategic choices about the allocation of resources. Some of these techniques are simple to apply, cost little and have quick pay-offs. Others involve serious organizational reform and the acquisition of new and complex skills by city officials. Indeed, these more complex tools may take years to fully implement and their benefits, while profound, often only manifest themselves with time.

Thus, while you will be able to freely choose from the tools available in this module we expect that in most cases there will be a logical progression from the choice of tools that are “cheap” and fast, to those that require the devotion of greater organizational and financial resources.

The tools you will be able to choose from under this module have been designed to follow this logical progression. In most cities, we expect to begin work with the application of a set of relatively simple and fast diagnostic tools. The information and results yielded by these tools will then allow mayors to make informed choices about committing the organizational resources necessary to apply and master the module’s more complex instruments.

In the following, we present the tools that we have available, or that will be enhanced within this expected progression. Obviously, those of you who know that you want to jump right into one of the larger programs will be free to do so.

Diagnostic Tools

The Gmina Financial Analysis: Basic and Enhanced

We expect that most technical assistance in Pilot Partner Cities will begin with the application of the Basic Gmina Financial Analysis (BGFA) and the Scan of Planning and Management Systems (SPMS).

Taken together, these two tools will give you and other top city officials a basic sense of the financial resources at your disposal over the next 5 to 7 years, as well as an initial assessment of your most important planning and management systems.

In essence, the BGFA is a powerful set of spread sheets that integrate multi year projections of revenue and operating expenditures with planned investment outlays over the same period to yield a basic picture of the medium-term financial resources of a municipality. The BGFA has been successfully run in 10 different gminas. Its initial

installation typically requires the work of external consultants. Once installed, however, the personnel of municipal finance departments--even of small gminas--are typically able to master, use and adapt the tool for their own further use.

The collection of the data necessary to run the BGFA, however, will force you and your top officials to develop a highly abbreviated capital investment plan.. In our experience, while abbreviated this plan nonetheless usually marks the first serious attempt to unify and structure information about individual investments. At the same time, the structure of the spread sheets themselves will impose, and make transparent a rational set of assumptions about future trends in revenues and operating expenditures, again usually for the first time.

To date, the BGFA has been used primarily to assess a gmina's medium term debt carrying capacity. Typically, however, the very problems in collecting the relevant data about planned investments will reveal shortcomings in your existing capital planning procedures. The application of the BGFA, thus constitutes a natural starting point for a discussion with you about whether you want to commit the resources necessary to develop a full blown Capital Investment Program (CIP), one of our more complex tools.

By integrating historical and projected data on revenues and operating expenditures the BGFA also yields a wealth of information about the present and future structure of the city's basic operating expenses, and revenue flows. Indeed, the application of the BGFA often flags "irregularities" such as unusually low revenues from transport taxes or unusually high expenditures on housing subsidies that may signal serious problems. Thus, the instrument has latent diagnostic powers and policy implications well beyond analyzing municipal debt carrying capacity.

Thus far, we have made relatively little systematic use of these latent possibilities. Over the next three months, however we will develop an Enhanced Gmina Financial Analysis (EGFA) designed to exploit these diagnostic possibilities. The EGFA will add three new components to the BGFA:

- A set of variables that allow the calculation of the impact of possible changes in city policy or in the external economic and regulatory environments, on major revenues and expenditures categories.
- A handbook to explain the use of the GFA and the policy implications of the tool's enhanced sensitivity powers.
- A simple data base designed to confront the information yielded by the GFA in a particular city with basic GUS data on revenue and expenditures norms for cities of comparable sizes.

Taken together, these new components of the GFA will make the line by line assumptions used to project revenue and expenditure categories in the spread sheets

both more transparent and more sensitive to potential external impacts; increase the tools relevance to city policy-making in such areas as wage policy and local revenue policy; and provide gminas with important comparative performance data.

These diagnostic powers will also help you make informed decisions about the potential gains to be had by implementing a full blown Task-Based budgeting program, another of the module's more complex tools.

BOX I
THE GMINA FINANCIAL ANALYSIS IN POLAND

Thus far the GFA has been run in 10 Polish gmina's ranging in size from ten thousand to over one-million inhabitants. In all cases the analysis had three distinct types of benefits:

- Benefits related to the gmina's ability to determine which of its planned investments it can actually afford and finance.
- Benefits related to the gminas ability to promote itself and its debt financed investments to investors and entrepreneurs.
- Benefits related to the gminas ability to assess the rationality of its operating expenditures and the stability of its revenue flows.

For a more complete discussion of the GFA, the benefits, and particular cases see: the Module on Infrastructure Finance

The Scan of Planning and Finance Systems

If the primary purpose of the GFA is to answer the question what resources does a city really have and how are they being spent, then the primary purpose of the Scan of Planning and Finance Systems (SPFS) is to answer the question: Do the existing management systems and procedures allow city officials to make informed strategic decisions and to manage and monitor their execution?

The SPFS focuses on four distinct but related major management sub-systems: the Operating Budget; Investment Planning and Financing; Physical Development Planning; and Municipal Services and Operations. It examines the readily available facts about the organization of these to determine whether they:

- Provide pertinent, adequate and reliable information to decision makers in a timely fashion.
- Contain formal mechanisms to assign responsibility to, and account for and control the actions of concerned agents.
- Create procedures that make the decision-making process visible, understandable, and transparent.



To date, various components of the SPFS have been run in a half dozen cities. Based on this experience we expect the full application of the scan will require a week of on-site work by a team of 3-4 consultants. During this week the top city officials responsible for each of the four major management systems will be interviewed and the relevant documents for each management sub-system reviewed.

The scan of the individual management subsystems will be guided by a framing question that our experience has shown to yield the most information about the most problematic areas. These framing questions can be stated as follows:

- *Operating Budget:* How is the current operating budget formulated and managed, and how well does it allow top officials to predict, monitor and account for current revenues and expenditures?
- *Investment Planning and Financing:* Do current investment decision-making procedures relate individual projects to policy positions, priorities and schedules with financial capacity explicitly defined in a visible and transparent process?
- *Municipal Services/Operations:* How are the major municipal services organized and how is service quality and financial accountability defined and maintained?
- *Physical Development Planning:* Do strategic and sectoral plans provide a reliable guide for capital investment decisions and direct resources for economic growth and social needs?

To give robust answers to these framing questions the Module will develop a set of topically-specific issue checklists for the different principal actors involved in each management sub-systems. Accompanying these checklists there will also be a standardized sets of requests for documents for each sub-system.

The results of the scan will be delivered to you as an exit briefing at the conclusion of the on-site mission, and then in a written report of findings and recommendations. The findings report will relate your stated priorities directly to the diagnosis of each of the major planning sub-systems generated by the scan. All recommendations for further technical assistance will be accompanied by clear definitions of the organizational (and financial) resources that will have to be spent by the city to implement the appropriate reforms, as well as checklists of the kind of information the you will need to begin them.

Recommendations to implement major reforms will only be made for those management sub-systems that you are most concerned with. We expect, however, that some of the more remedial actions that findings report will recommend may eventually serve as the basis of more profound reforms, even if they are not your most pressing

concerns. Indeed, the Module's complex Task-Based Budgeting and Capital Improvement Planning packages have been designed in ways that will allow most of their respective parts to be implemented individually.

Thus, and for example, the scan of the Operating Budget, might reveal that a city has not formulated clear budget instructions for its departments and that it has a poorly articulated budget calendar. Improving these aspects of the Operating Budget can be done quickly and at low cost, and may be desirable even if your primary objective remains improving the city's investment planning process. The development of a budget calendar and budget indicators, however could grow into work on defining performance indicators for particular departments and, eventually a full-blown TBB.

Conversely, even if you were primarily concerned with improving the management and control of your operating budget, and thus committed to implementing a full-blown TBB, you might nonetheless also be having problems in deciding which of two important investments the city should focus on. Here, you might request help in determining investment priorities and establishing rational criteria for the choice the city faces, work that might eventually serve as the basis for more complex interventions into the capital improvement process.

Finally, while we expect that this Module of the program may solve many of the problems that GFA and SPFS identify, we expect that the more profound issues in the areas of service provision and enterprise control, land management, housing, and economic development will be passed-off on to the other Modules of the Pilot LGPP.

Complex Tools: CIP and TBB

Following the application of the EGFA and the SPFS we expect you and your colleagues to be able to make informed decisions about whether you wish to devote the organizational resources necessary to fully implement the two more complex tools that this module will offer.

We consider the full application of these tools extremely important because the processes they put in place do more than other reforms to raise the overall level of municipal governance, accountability and service provision. In short, and as complex processes, they are key to integrating and making manageable the diverse and often otherwise overwhelming challenges that face municipal governments across the globe.

Nonetheless, our understanding of strategic management and planning as a reflexive process that must be aware of the cost/benefit aspects of its own application have led us to design the component parts of these processes into more or less discrete units. Thus, while the module will constantly work to implement the entire range of activities and reforms associated with both capital improvement planning and task-based budgeting it



will do so in ways that fit the immediate need, resources and priorities of your communities.

Capital Investment Planning

At the most general level capital improvement planning is about four things:

- Creating procedures to elicit good information from both technical experts and the population-at-large about a community's most pressing needs, and the relation of those needs to its overall vision of itself.
- Developing processes that allow city officials and citizens to make informed judgments about the real social and economic costs (and benefits) of different infrastructure projects, and to prioritize them.
- Setting up mechanisms to determine whether the community can afford, or is willing, to pay for the realization of the selected projects and to transparently make decisions about the re-ordering of priorities based on this assessment of resources.
- Establishing protocols and procedures to insure that the construction and financing of the selected projects proceeds as scheduled and planned.

The development of a CIP is thus an integrative task that cuts across technical specialties and disciplines. Three broad kinds of people are involved. First, and most broadly it involves people who make plans for the physical development of the city and for the improvement of individual sectors of city operations, like water supply or education. Second it involves people who develop and manage construction projects. These people define in detail what is to be built and oversee the actual construction. Third it involves people who manage budgets. These people determine how much investment can be afforded and how the implementation and scheduling of investments will affect future budgets.

Investment planning also involves the operating managers of city services, who frequently initiate projects and who will be responsible for operating and maintaining the investments after construction. Finally, it involves working with citizens, as initiators of investments, and as partners in establishing investment priorities. All of these people must be brought together to make a capital investment plan. Thus the coordinator of the process should, above all, be a good team-builder, and should have skills and/or experiences that cut across the planning, economics, and engineering disciplines,

Each of the basic tasks involved in creating a CIP can be broken down into discrete problems that can be addressed by particular tools. In the following, we list the

specific tools that Module will develop. The tools are designed to be used together as components of an integrated system. However, we anticipate that in practice some tools will be deployed on a stand alone basis and tool development will accommodate this potential.

- **Model CIP instructions and request forms.** This tool provides a model for organizing the flow of information required to generate a capital investment plan from a series of individual project requests. It consists of a CIP preparation calendar; a definition of key terms; a set of standard instructions to and information requirements that must accompany all funding requests; an explanation of the criteria used to select projects for funding; and procedures for engaging citizens in the process. The instructions are patterned after conventional budget instructions, and place the obligation to provide information and justification on the agency or department making the request. These tools are controlled by the designated CIP Coordinator.

- **Model investment evaluation & priority criteria.** This tool provides a standard set of criteria to evaluate the performance of proposed capital investment projects and assess priorities. The criteria reflect three different perspectives: the individual service sector; the physical development of the municipality, and the broader strategy of the municipality as whole,

- **Model CIP summary evaluation formats.** These formats are designed to provide a condensed one-page presentation of investment projects for top city officials. The one-page formats present a condensed evaluation judgment of an individual project; summary cost /benefit data on all projects, by priority; and the total resource consumption of all projects, by priority.

- **Model CIP process control spreadsheet.** This tool tracks the fate of all projects requesting funding in an annual CIP process. It is analogous to more elaborate systems which track the disposition of ordinary budget requests. It is built as an inventory of requests which are tracked through evaluation, prioritization, the decision to fund, and a schedule of funded projects. It yields an inventory of funded and un-funded projects.

- **Model display formats for the CIP document.** These tools are for conveying and displaying comprehensive and transparent substantive and financial information in a publicly distributed CIP. These tools both help define the content of a good CIP as well as refine its mode of presentation. Examples include content guidance for text; content and format of tables; graphic display; maps.

- **Model legal form of the capital budget.** This tool combines guidance on how to draft good appropriation and debt authorization language with the clear identification of any requirements imposed by Polish municipal finance law on the content and form of a capital budget. It anticipates that only the budget can legally authorize funds, and that the CIP will serve as the official municipal statement of its infrastructure development

agenda, but will have no binding legal status. The process of developing this tool will continue to be used to identify legal impediments to best-practice budgeting and financial control of capital funds.

■ **Model investment technical preparation protocol.** This tool defines the steps required to properly prepare an investment project for tender. The steps are described in terms of the reliability and content of the information needed for each stage of the process, beginning with the general concept of the project and ending with construction specifications. The protocol will define at least one key GO/NO GO point at which proposed projects are reviewed for or for further technical elaboration. This protocol will also identify under what circumstances a formal feasibility study is required and will define its needed content and as well as the conditions that would require a prior financial feasibility test. The feasibility study stage is likely to provide the earliest opportunity for a well-informed GO NO GO decision on major projects. This protocol will draw on ongoing MDA efforts and outside experts to define good technical preparation practice and content for feasibility studies in different sectors and is described in greater detail in the Infrastructure Finance Module.

■ **Model investment cost estimating protocol.** This protocol is being developed in parallel with the Technical Preparation Protocol to define standards for developing capital cost estimates of proposed investments for use at major decision points in the project preparation cycle. This protocol will define when these costs estimates should be prepared; their technical basis; and their expected degree of accuracy. It will conclude with the Investor's Cost Estimate as required by the new Procurement Code. A related protocol for estimating operating cost and revenue impacts of proposed investments will also be prepared.

■ **Directory of infrastructure financing resources.** This tool is a directory of all market and non-market financing sources available to finance one or more categories of infrastructure investments in Polish cities. The directory, being developed in cooperation with the MDA will identify each source, describe financing terms, indicate the volume of financing available, describe how each source is accessed, and provide a contact point for obtaining further information. This directory will incorporate material developed by EAPS, UNIDO and other partial surveys.

Tasked-Based Budgeting

Task-Based Budgeting is principally about three things:

- Defining procedures that make current resource allocation decisions transparent to both citizens and city officials.
- Developing performance mechanisms to define costs and measure the efficiency of resources spent on a given task or program.

BOX II CAPITAL INVESTMENT PLANNING IN SZCZECIN

In 1996, the City of Szczecin began efforts to develop a comprehensive long-term capital investment plan. For the first time, the various departments and agencies of the City were required to submit standard, multi-year descriptions of their investment projects. And for the first time the City Council passed a resolution requiring that all investments funded in the current year be part a four year plan. This process, and the capital investment plan it has yielded, have had the following benefits:

- Investment priorities were explicitly linked to a recently crafted General Development Strategy for the City of Szczecin and its emerging land use plan.
- The City Council accepted a capital investment plan that defines and assigns investment spending over four years, substantially reducing uncertainty at both the executive and departmental level.
- Priority investments were assigned construction and expenditure schedules for a four year period.
- The costs of these investments were explicitly linked to an explicit multi year analysis of the City's financing capacity.
- City departments exercised greater discipline in submitting annual investment requests.

In the immediate future, the City will begin to introduce protocols designed to strengthen project preparation, investment and operating cost estimations and to compare the economic and social benefits of different investment projects.

- Assigning responsibility for the realization of given tasks to particular agents within the government and developing the mechanisms and protocols to measure the execution of these responsibilities against their expected performance.

Task-Based Budgeting is thus fundamentally about increasing the transparency of resource allocations by linking budgeting to explicitly stated expectations and measures of performance. To be successful, TBB programs require the firm commitment of top city officials, particularly in the finance and budget departments. Typically, reforms beginning in these department, and then working themselves down to other levels of city government. Like capital improvement planning the implementation of TBB programs typically extend over several years.

Moreover, full-blown TBB programs may require profound organizational changes, new accounting procedures, new computer software (and often hardware), as well as new skills. Among the most important new skills that typically need to be developed are in the area of budget analysis, that is to say in the design of performance measures to determine how much money should be spent to achieve a given level of task-execution. Usually, budget analysts have backgrounds in accounting, economics or project management.

But like CIP programs, TBB can be broken down into component parts that allow for both the progressive implementation of programs and the progressive realization of their benefits. In the following, we list the specific tools that Module now has--or will shortly have--available for deployment. Most of these tools have been adapted to the Polish legal, economic and regulatory environment by the MDA's Budget Research Center in Krakow and in cooperation with the lead city of Krakow which has taken major steps towards implementing a full-blow TBB program. Moreover, many of these tools are comprehensively presented in the Manual on Task-Based Budgeting developed by ICMA and the MDA's Budget Research Center.

■ **Model budget calendars, assignment charts, and budget instructions.** The MDA-Krakow has developed a model budget calendar, standard budget instructions, and assignment charts for use in the budgeting process. The calendar defines when different agents are responsible for submitting budget requests, and when and by whom these requests are decided upon. The budget instructions contain standard instructions for calculating inflation, presenting requests and for justifying them. The assignment charts define who is responsible for what during both the formulation of the budget and its execution. All are constructed in specific reference to existing practice that highlights the difference between these practices and the desirable norms, and all can be implemented relatively quickly and with major immediate benefits.

■ **Budget variance spreadsheets.** Because current budget control practices in Poland today typically measure actual expenditures only against year end expectations, we will develop a set of simple spreadsheets that will allow the budget department to track the most important revenue and expenditure categories on a monthly or quarterly basis. These spread sheets will be designed for use alongside the accounting system and will not require its replacement, or its full computerization.

■ **Models of public participation.** The TBB Handbook presents a full inventory of various methods for engaging the public at large in the budget process. For some of these methods, the handbook describes explicit social scientific survey instruments and technologies, as well as examples of instruments that have been successfully used in Poland and abroad. Detailed methodologies for use in other more public forums will be developed and tested as the Pilot LGPP unfolds.

■ **Performance and effectiveness measures.** The TBB Handbook also presents standardized formats for the departmental development of performance and effectiveness measures, as well as some basic formulas for calculating and distributing overhead costs between departments. These formats are accompanied by examples of performance indicators and effectiveness measures for select city tasks, as well as worksheets for calculating basic measures. Over time, the number and type of tasks for which their will be model indicators and work sheets will increase, simplifying the training and dissemination efforts already going on.

■ **Standardized software packages for cross-walking budgeting systems.** At present, only the City of Krakow has invested in the hardware and software needed to cross-walk a Task-Based Budget with the accounting requirements mandated by the national government. Moreover, it is unclear how well this system--the first of its kind in Poland--actually performs, and whether it will be appropriate or cost effective in smaller municipalities. As a result, one of the more immediate tasks of the Module will be to conduct an inventory of existing software programs available on the Polish market and an analysis of which programs might be most easily adapted to fit the needs of cities of different sizes. Based on this diagnostic, we expect then to work with a two or three local computer firms active on the municipal market to develop viable programs to serve cities with different needs.

BOX III
TASK-BASED BUDGETING IN KRAKOW

Since 1994, the City of Krakow has systematically been introducing task-based budgeting procedures into the preparation, monitoring and control of its annual budget. This process has entailed among other things, the clarification of the budget calendar; the creation of standardized forms for budget requests; the redefinition of expenditure categories in terms of their contribution to the execution of particular tasks; the assignment of responsibility for the execution of these tasks to particular individuals; the development of performance measures to determine the unit costs of tasks; and the introduction of a computer system that allows for expenditures to be grouped both according to task and the Law on the State Budget. This process has yielded the following benefits:

- The annual budget is now a clear and easily readable document that allows citizens and city employees to see exactly how much money is being spent on particular city services and operations.
- Top city officials now have exact information about the performance of particular departments and know who to turn to for information about the execution (or non-execution) of specific activities.
- Individual departments now concentrate on the execution of tasks and not on assigning expenditures to particular budget categories.
- The number of administrative personnel has fallen allowing for the employment of more people to actually execute tasks and improve services.
- There has been a significant lowering of unit costs for the execution of some tasks, while the quality of many services and functions has improved markedly.